

VIDESH  
SANCHAR  
NIGAM  
LIMITED



VSNL FOURTEENTH ANNUAL REPORT 1999-2000

Report



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VIDESH SANCHAR NIGAM LIMITED

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FOURTEENTH  
ANNUAL REPORT

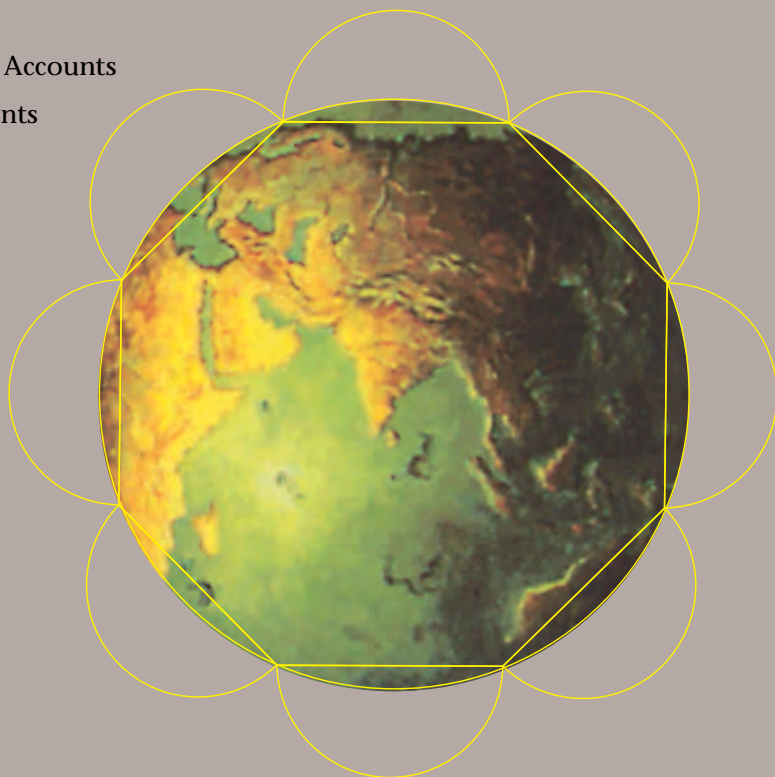
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## Mission Statement


*"To create a global and seamless network of Information Super Highways, to connect people and computers cost effectively and efficiently; anytime, anywhere."*



VSNL's vision is to bring the benefits of world-class communications technology to the largest number of people, creating a real and valuable improvement in the way we all live, work and interact with each other. We believe that by investing in state-of-the-art technology, we can continuously delight our customers with cost-effective and highly efficient services, provide an exciting and fulfilling environment for our workforce and satisfy our stakeholders by maximising returns on their investment in us.

# Thriving on Change

Exciting new technologies. Television on computers, e-mail on television. Lower telephone charges. New players in domestic long distance telephony. An Internet explosion.



It's obvious that change is going to be a way of life in India's exciting telecom market. The cliché that change is the only constant has never been more true than it is here and now. The year 2000 is a crucial one for telecom reform in India, because this is the year in which many changes that have been debated over the past decade will actually get implemented. The government has already opened up domestic long distance telephony (DLD) and lowered telephone rates. It is expected to further liberalise the market and facilitate entry into new business areas.

Often, the shape of specific policies can also shape the fortunes of the industry's players. Such rapid and complex change can be disorienting and challenging. At VSNL, though, we regard change as an opportunity to grow, to enter high-potential new areas, to capitalise on our existing strengths and thus, to thrive. As India's leading telecom player with a long history of superior performance and expertise, VSNL is perfectly placed to do just this. We recognise that the key requirement for any telecom player today is to be fast and flexible, to remain alert to respond to fast-changing scenarios and be willing to adopt strategies that best capitalise on emerging opportunities.

At VSNL, we anticipate that far-reaching changes in many areas of our business will transform the company almost completely within a few years. For one thing, in a liberalised market, we will not be the sole provider of international telephony and Internet services. But we will certainly remain the leading provider within a competitive market. Next, rather than being largely an international telephony provider, we will be the preferred provider of a whole range of emerging information services including domestic long distance services, Internet services, 3G, wireless and mobile satellite services and broadcast services.

We recognise that we must match changes in the external market with changes in our approach and structure. Therefore we will clearly focus on innovative, world-class customer care and services for our growing base of retail and corporate customers. Finally, VSNL is adding new shareholders, as the government has divested some of its shares in the company. We will ensure that all our stakeholders continue to derive lasting value from VSNL, as we thrive on the opportunities that change brings.

# Telecom Opportunities

India's telecom market defies the proverb that what goes up must come down. The only possible direction for the market to go is north, given the huge potential for increasing the number of telephone lines, the coverage of the population by telephones and the users of a variety of telephone services. In 1999, the National Telecom Policy (NTP) set out some objectives that demonstrate India's hunger for communications and its untapped market potential. The NTP aims to:

Make telephones available on demand by the year 2002 and achieve a teledensity (number of telephone lines per 100 inhabitants) of seven by the year 2005 and 15 by the year 2010, against two in 1999.

Cover all Indian villages with telecom services by the year 2002 and increase rural teledensity from the 1999 level of 0.4, to four by the year 2010.

Provide Internet access to all district head quarters by the year 2000 and provide high-speed data and multimedia capability to all towns with a population greater than 200,000 by the year 2002.

As that shows, India's telecom potential is both vast and exciting. As the telecom coverage increases, the use of various services including international and domestic long distance (DLD) services will soar. Already the only provider of international services, VSNL intends to remain the biggest and best provider and also enter the DLD market as a key player. Estimates made by the NTP project a dynamic growth level for DLD services and high potential for new entrants.

The NTP has projected\* that DLD traffic will grow at 16.3% annually from the fiscal year 2001-02 onwards. It estimates DLD revenues from 40 cities in FY 2001-02 at Rs.61.61 billion, so that an operator with a 15% market share can expect revenues of Rs. 9.24 billion. This 40-city market is projected to grow to Rs. 96.89 billion in FY 2004-05, with a possible profitability in that year of 35% for new players. It also points out that large, national players will have an advantage. For example, according to its viability analysis, a nation-wide DLD operator can be profitable in the very first year of operations, unlike players with a smaller coverage. VSNL's financial strength and existing networks put it in a good position to become a national player quickly.





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The human face behind those numbers will be a large population of very happy customers. Competition is expected to drive rates down and improve services, as has been the experience in every country that has opened up its telecom markets. In the US for example, deregulation grew the market and reduced rates, benefiting customers. The DLD market in the US went from US \$ 46 billion in 1984 to US \$ 78 billion in 1997, while the average charge per minute fell 50%.

VSNL will thrive in India's telecom market in both its existing and new businesses by providing state-of-the art networks and superior services at a competitive price.

state-of the art networks  
and superior services

*\*NTP projections are provided only as illustrations of potential. VSNL may not agree with these projections partially or fully.*



# Internet Explosion

Farmers in Maharashtra co-operatives go online to make sure they are getting a fair price for their products. Technology-shy grandmothers who hesitate to use video players confidently surf the Internet to send electronic greeting cards to their grandchildren abroad. Hundreds of workers from Gurgaon to Guntur transcribe medical records dictated by doctors in the US or process insurance claims from the UK. It's the biggest revolution the world has seen, and India is firmly in the middle of it. And VSNL is the behind-the-scenes presence that supports the country as it embraces new technologies and turns into a global information technology powerhouse. In the process, we touch thousands of lives everyday, as we serve both our individual and our corporate customers.

The penetration of the Internet and the use of Internet-related services have grown rapidly in the last few years. Yet, this is one market that consistently out-performs even optimistic projections. According to projections from the National Association of Software and Service Companies (NASSCOM)\*, by December 2003, India will have 11 million Internet connections with 23 million users, against just over 1 million connections and 3.70 million users in June 2000.

As India's biggest Internet Service Provider (ISP), VSNL will be at the forefront of this growth. Although your company has so far been restricted as an ISP to six cities, it has a market share of around 70% in these cities. The government is now giving VSNL an all-India ISP license, which will ensure that VSNL remains the first name not just in coverage but also in the quality of its services.

## INDIA - GROWTH OF INTERNET (Projections)

Date	Internet Connections (in million)	Users (in million)
March 31, 2001	1.6	5
March 31, 2002	4	10
March 31, 2003	8	18
December 31, 2003	11	23

Source: NASSCOM

## India: Growth of Internet



## Corporate Customers

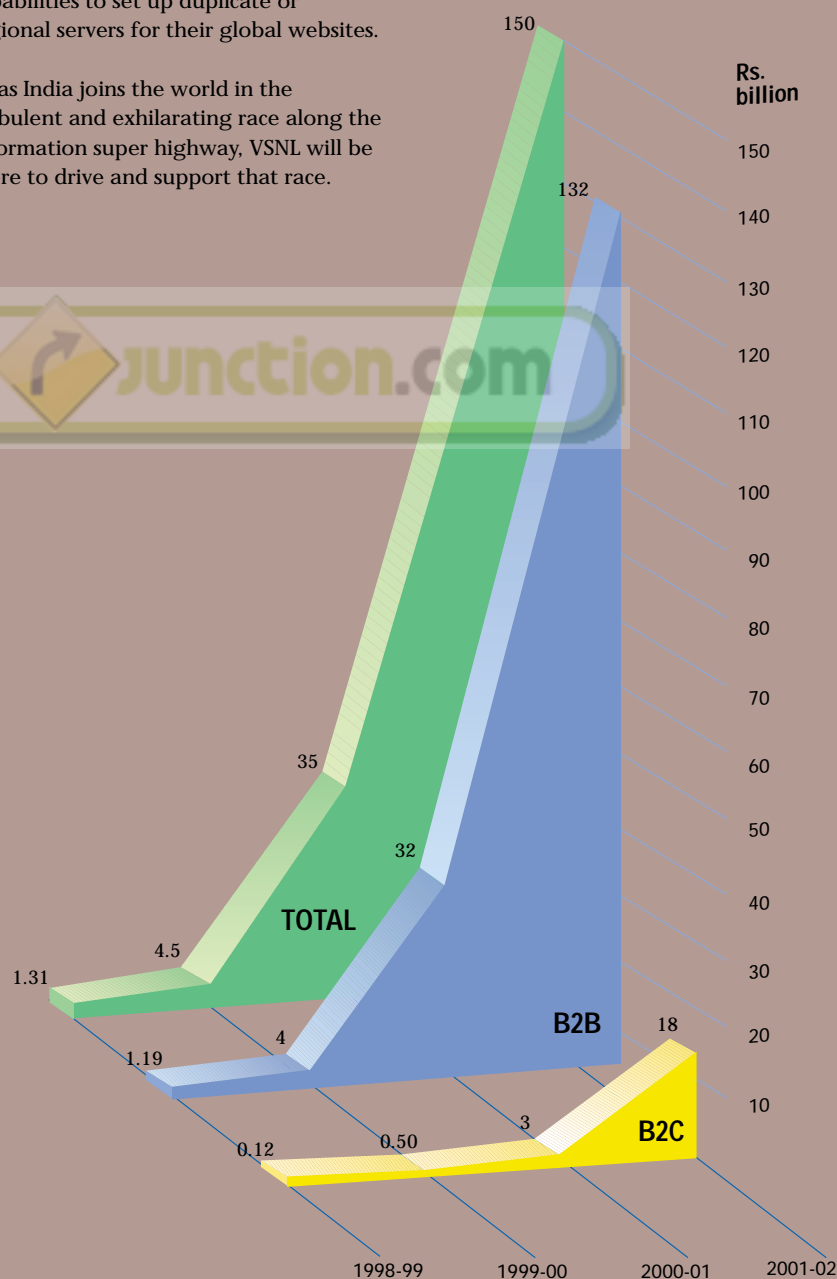
Satisfying individual subscribers is only one part of the story. VSNL also has a large base of corporate customers. One set of corporate customers uses the Internet as a tool for better communication and networking with their own offices, suppliers and customers, through the use of extranets, intranets and electronic data interchanges. This segment includes the crucial information technology sector, which counts on VSNL to provide reliable, efficient connectivity to support its growing business needs. For example, India is rapidly becoming an important provider of IT-enabled services or remote processing, in areas like call centres, medical transcription, legal databases, data processing or animation. Such services are made possible only because of VSNL's Internet and telecommunication links with offices overseas, making it possible for companies to work seamlessly together across continents and time zones.

Another set of customers consists of companies actually in the Internet business, with websites that depend on sales or advertising for revenues. These customers also require superior support, especially as e-commerce is set to grow rapidly. According to NASSCOM estimates, e-commerce transactions in India could jump from about Rs. 4.50 billion in 1999-2000 to Rs. 35 billion during 2000-01 and even Rs. 150 billion by 2001-02. India's active Internet population would spend 3.2% of its total regular household spending through Internet purchases by 2003. And while the Internet and e-commerce industry employs approximately 82,000 people today, by March 2003, that number could be over 300,000 people.

Within this explosion lie countless business opportunities in specific segments. Just one example: an estimated 91% of India's corporate web sites are located overseas, indicating the urgent need for secure and reliable hosting services in India. To meet that need, VSNL is building server farms to house thousands of servers, not just for Indian companies but also for overseas companies who are keen to use VSNL's capabilities to set up duplicate or regional servers for their global websites.

So as India joins the world in the turbulent and exhilarating race along the information super highway, VSNL will be there to drive and support that race.

India: Growth of E-Commerce



Source: NASSCOM

*\*NASSCOM projections are provided only as illustrations of potential. VSNL may not agree with these projections partially or fully.*